

**REPORT OF THE AUDIT OF THE  
GRAVES COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2006**

2007

*Romaine*  
*and Associates PLLC*

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CERTIFIED PUBLIC ACCOUNTANTS



**REPORT OF THE AUDIT OF THE  
GRAVES COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2006**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**GRAVES COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2006**

Romaine & Associates, PLLC has completed the Graves County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees increased by \$105,478 from the prior year, resulting in excess fees of \$63,256 as of December 31, 2006. Revenues increased by \$299,442 from the prior year and expenditures increased by \$193,964. As of the audit date, the Sheriff still owes excess fees of \$161 for 2006.

**Debt Obligations:**

Total debt principal as of December 31, 2006, was \$218,154. Future collections of \$240,704 are needed over the next four years to pay all debt principal and interest.

**Report Comments:**

- The Sheriff Should Maintain Complete and Accurate Accounting Records
- The Sheriff Should Advertise For Bids For Any Purchases of \$20,000 Or More
- The Sheriff's Office Lacks Adequate Segregation of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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Krista Romaine, CPA, Member  
Charlotte Clark, Member

# Romaine and Associates PLLC

William Erwin, CPA  
Van R. Prince, CPA

CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Tony Smith, Graves County Judge/Executive  
Honorable John Davis, Graves County Sheriff  
Members of the Graves County Fiscal Court

## Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Graves County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 15, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tony Smith, Graves County Judge/Executive  
Honorable John Davis, Graves County Sheriff  
Members of the Graves County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Maintain Complete and Accurate Accounting Records
- The Sheriff Should Advertise For Bids For Any Purchases of \$20,000 Or More
- The Sheriff's Office Lacks Adequate Segregation of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Graves County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Romaine & Associates, PLLC  
Certified Public Accountants

July 15, 2008



GRAVES COUNTY  
JOHN DAVIS, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Grants

Kentucky Law Enforcement Foundation Program Fund	\$ 27,888	
Law Enforcement Service Fee	4,239	
Highway Safety Program	4,560	
Drug Task Force	26,840	63,527

State Fees For Services:

Finance and Administration Cabinet	\$ 78,703	
Cabinet For Human and Family Services	14,422	
Sheriff's Security Service	41,423	134,548

Circuit Court Clerk:

Fines and Fees Collected		282
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Fiscal Court

140,150

County Clerk - Delinquent Taxes

3,215

Commission On Taxes Collected

341,888

Fees Collected For Services:

Auto Inspections	\$ 18,440	
Accident and Police Reports	2,559	
Serving Papers	51,843	
Carrying Concealed Deadly Weapon Permits	7,435	
Sheriff Fees	47,490	127,767

Other:

Returned Check Fees	\$ 328	
Extra Security	7,590	
Payroll Reimbursement	12,481	
Insurance Payments	2,717	
Restitution	3,203	
Telecommunication Tax	1,296	
Deputy Reimbursement	2,870	
Auction Sales	14,927	
Advertising Fees	6,901	
Miscellaneous	7	52,320

The accompanying notes are an integral part of this financial statement.



GRAVES COUNTY  
 JOHN DAVIS, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Revenues (Continued)

Interest Earned		119
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Borrowed Money:

State Advancement	\$ 160,000	
Bank Note	288,899	448,899

Total Revenues		\$ 1,312,715
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Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 382,357	
Part-Time Salaries	76,279	
Other Salaries	10,191	\$ 468,827

Employee Benefits-

Employer's Share Social Security		37,970
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Contracted Services-

Advertising	\$ 422	
Court Security	9,270	
Computer Services	1,200	10,892

Materials and Supplies-

Office Materials and Supplies		1,239
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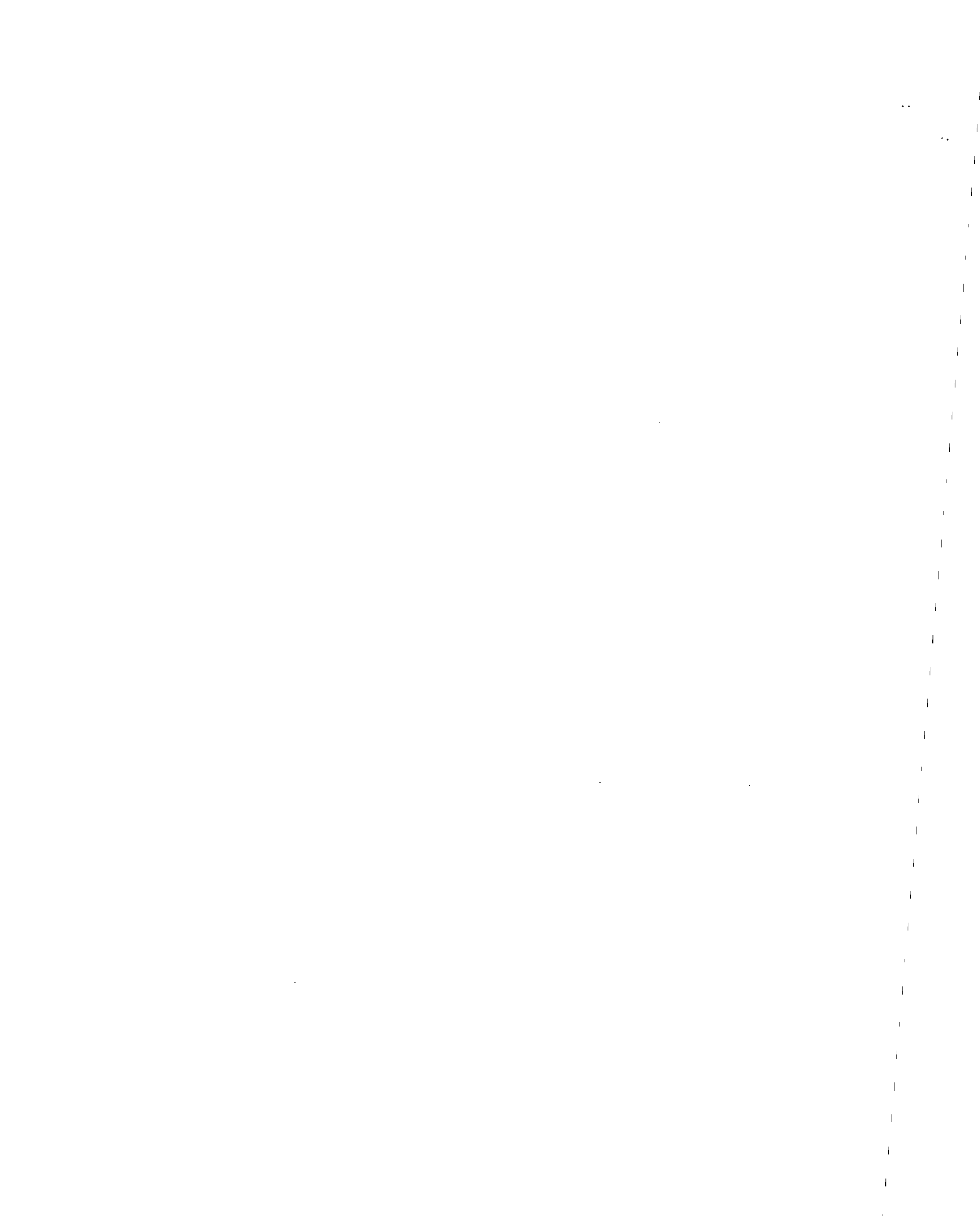
Auto Expense-

Gasoline	\$ 49,446	
Maintenance and Repairs	17,736	67,182

Other Charges-

Conventions and Travel	\$ 3,322	
Dues	877	
Postage	9,212	
Carrying Concealed Deadly Weapon Permits	4,405	
Canine	920	
Miscellaneous	9,683	
Auction Payments	14,113	
Transports	21,074	
Jury Meals	303	63,909

The accompanying notes are an integral part of this financial statement.



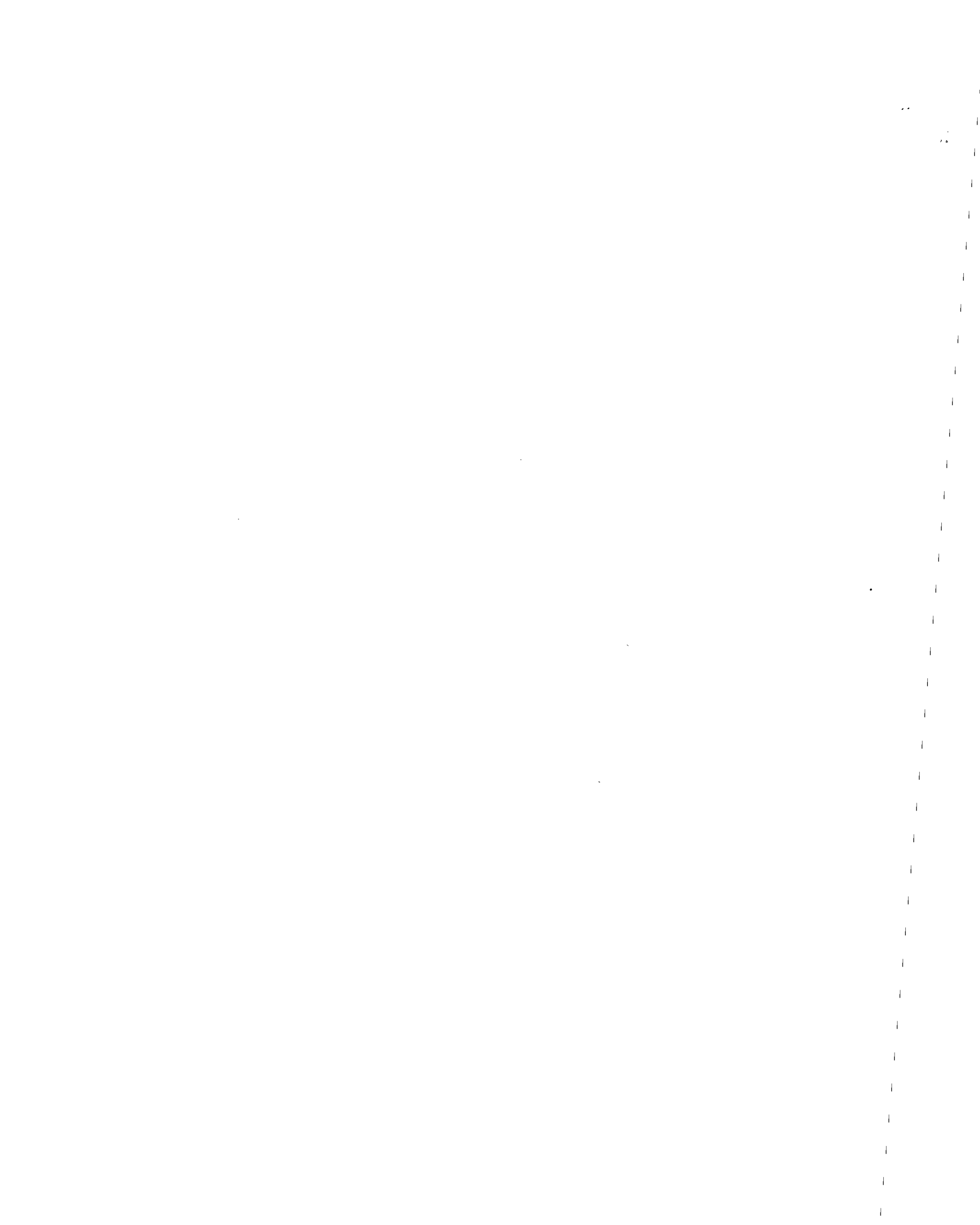


GRAVES COUNTY  
 JOHN DAVIS, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-		
Vehicles		218,071
Debt Service:		
State Advancement	\$ 160,000	
Notes	133,496	
Interest	<u>2,015</u>	<u>295,511</u>
Total Expenditures		<u>1,163,601</u>
Net Revenues		\$ 149,114
Less: Statutory Maximum		<u>79,247</u>
Excess Fees		69,867
Less: Training Incentive Benefit		<u>6,611</u>
Excess Fees Due County for 2006		63,256
Payments to Fiscal Court - April 23, 2007		<u>63,095</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 161</u></u>

The accompanying notes are an integral part of this financial statement.



GRAVES COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).



GRAVES COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.



GRAVES COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 4. Note Payable

The office of the Sheriff is liable for a secured note payable to First National Bank in the amount of \$218,154. The purpose of the note was to refinance a bank note from the current year and also to purchase new police vehicles. The note matures in four years and the interest rate is 5.00 percent. The office of the Sheriff was in compliance with the terms of the agreement as of December 31, 2006.

<u>Year Ending</u>	<u>Interest</u>	<u>Principal</u>
2007	9,323	50,853
2008	7,182	52,994
2009	4,448	55,728
2010	1,597	58,579
	<u>\$ 22,550</u>	<u>\$ 218,154</u>

Note 5. Grants

During calendar year 2006, the Graves County Sheriff's Office participated in state grant programs of which the activity was accounted for in the Fee Account. The Sheriff's Office was in compliance with all related regulations and grant agreements as of December 31, 2006.

Note 6. Special Fund

The Graves County Sheriff maintains a separate account mainly for drug related activities and some miscellaneous activities. The beginning balance of this account was \$504. During calendar year 2006 receipts were \$76,481 and expenditures were \$26,185 leaving an ending balance of \$50,800 as of December 31, 2006.

Note 7. Forfeiture Fund

The Office of the Graves County Sheriff has a forfeiture fund established by an order of the Circuit Court. Receipts result from the forfeiture of money, forfeiture of property, and court ordered payments from individuals. The funds are spent for supplies, equipment, vehicles, and drug awareness programs. The Forfeiture fund was established during 2006. Receipts totaled \$14,672. and expenditures totaled \$4,468 for the calendar year 2006. The balance at December 31, 2006 of the Drug Enforcement Fund was \$10,204.





REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Tony Smith, Graves County Judge/Executive  
Honorable John Davis, Graves County Sheriff  
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Graves County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated July 15, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Graves County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Graves County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency as described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance on other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Maintain Complete and Accurate Accounting Records
- The Sheriff Should Advertise For Bids For Any Purchases of \$20,000 Or More

This report is intended solely for the information and use of management, the Graves County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Romaine & Associates, PLLC

July 15, 2008



GRAVES COUNTY  
JOHN DAVIS, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

The Sheriff Should Maintain Complete and Accurate Accounting Records

KRS 68.210 and KRS 134.160 require the Sheriff to maintain complete and accurate accounting records. We noted several deficiencies in the Sheriff's accounting records. We recommend that the Sheriff establish and maintain proper accounting records as required by KRS 68.210 and KRS 134.160 by implementing the following procedures:

- All checks should be issued in numerical sequence, supported by proper documentation, and posted to the disbursements ledger.
- Checks more than 90 days old should be investigated.
- Ledgers should be maintained/updated on all accounts until such accounts are closed-out.
- Any fee monies received after the close of the year should be deposited to the fee account it pertains to.
- The Quarterly Report (front page) should include a reconciliation for all accounts of the Sheriff's office for the entire year.
- Budget Amendments should be submitted and approved by the fiscal court for any unexpected receipts and/or expenditures.
- Receipts and expenditures ledgers should be reconciled to the Quarterly Report.
- Bookkeeper should reconcile accounts receivables to the ledgers monthly.

*Sheriff's Response: Will comply.*

The Sheriff Should Advertise For Bids For Any Purchase of \$20,000 or More

According to KRS 424.260, no sheriff may enter into a contract, lease, or other agreement for materials, supplies, equipment or contractual services other than professional, involving an expenditure for more than \$20,000 without first making newspaper advertisement for bids. During 2006 the Sheriff borrowed \$218,154 from the bank to purchase several vehicles. These vehicles were not advertised for bids. We recommended that the Sheriff comply with KRS 424.260 by advertising for bids on all purchases of \$20,000 or more in the future.

*Sheriff's Response: Will Comply*





GRAVES COUNTY  
JOHN DAVIS, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily check out sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: None.*

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